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New York's Trust Company Problem.

FOR the suddenness and acuteness of New York's recent financial difficulty, many European critics consider trust company methods to have been the immediate occasion, though scarcely the general underlying cause. Says The Economist, in commenting upon the run upon the Knickerbocker Company: "In the world of credit the trust company plays the part of a free trader or a smuggler, for it competes with the bank without being hampered by the restrictions and safeguards of the banking law. In a trust company, security is subordinated to profit. In a bank, profit is (or ought to be) subordinated to security." Conservative opinion in the United States, also, is largely at one with the view of the New York Evening Post: that prominent "in the list of responsibility stand the inadequate state laws for restriction of trust company investments, and the folly with which the presidents of these institutions have resisted propositions of reform during half a dozen years."

As is well known, the national banks of New York, and of the two other reserve centres in the United States, are required to hold in their vaults an amount of "lawful money" equal to 25 p.c. of deposits. While state banks in New York are legally required to hold only a 15 p.c. reserve, those belonging to the Clearing House Association are thereby required to keep to the 25 p.c. standard. There was a time when Clearing House rulings were less rigorous, and when a considerable number of the New York trust companies submitted to its requirements so as to have the privilege of clearing their cheques through some member of the association. But when certain reserve restrictions were enforced, the majority withdrew from affiliation, and have ever since been free lances in the keen competition of banking business. A year or two ago, however, the Wainwright bill—passed by the state legislature—did what the Clearing House had failed to accomplish, and imposed a reserve requirement upon the trust companies—the standard being the same as that required of state banks, namely, 15 p.c. So careful an authority as The Financier of New York does not hesitate to say, however, that "as a matter of fact, means have been found whereby in some instances the actual percentage can be reduced by transfers elsewhere, and it is an open secret that some of the companies have been doing business on a very much lesser percentage."

United States and Canadian Trust Companies Contrasted.

IT is of interest to trace briefly the tendencies that have developed the present methods of United States trust companies. These institutions are state corporations formed originally to act as incorporated trustees—nor did the law relating to their organization apparently contemplate any other functions. They were not authorized to discount commercial paper, but in the exercising of their trust duties received deposits and could loan them out again on either real or personal security, and could invest also in stocks, bonds, mortgages, bills of exchange and other securities. As time went on, however, other deposits than trust funds were in practice accepted until the former far outbalanced the latter in importance and amount. As interest is paid on daily balances and deposits are subject to cheque withdrawal, it can be seen how the New York trust companies have been competing with the banks in attracting public custom. Practically they can employ their funds in every way allowed to banks, and in addition are privileged to loan upon a greater variety of securities including real estate mortgages. Nor are they restricted to any proportion of their capital in making loans to an individual borrower. While they are sup-